US Market Wrap

29th July 2022: SPX posts best month since November '20, supported by strong mega-cap earnings

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude up, Dollar down.
- **REAR VIEW**: PCE hotter than expected; ECI slightly above consensus; UoM sentiment revised higher, as is the 5yr inflation expectations; Chicago PMI disappoints; Waller said a soft landing is plausible; Bostic reiterates data-dependent mode; Strong AAPL & AMZN reports; Poor INTC earnings; Pelosi visit to Taiwan expected in early-part of APAC tour.
- **CENTRAL BANK WEEKLY**: Previewing BoE, RBA, BCB; Reviewing FOMC. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US jobs data, ISM; China Caixin PMIs; BoE, RBA, BCB, OPEC. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] ATVI; [TUES] CAT, MAR, SPGI, GILD, ABNB, SBUX, AMD, PYPL, OXY; [WED] CVS, REGN, MRNA, BKNG; [THURS] CI, LLY, BABA, COP, AMGN; [FRI] EOG. To download the full report, please click here.

MARKET WRAP

Equities enjoyed a rally to end the week and the month to see the S&P 500 have its best month since November of 2020, thanks to solid earnings reports from Apple (AAPL) and Amazon (AMZN). This came heading into the final day of the month and to close the peak weak of earnings season. The former beat on EPS and revenue but did not provide guidance, while the latter missed on EPS but beat on revenue, and was also supported by strong AWS sales alongside a stellar Q3 revenue outlook. The gains were led by the Nasdaq given the boost the tech giants received in wake of the aforementioned earnings although a very weak Intel (INTC) quarter saw the stock -9% at the close, telling a different story to other semiconductor figures. US data saw hot PCE prices, above consensus consumer spending and income while the employment costs index was also above expectations. However, none of this was enough to impact Fed market pricing which is fully pricing in a 50bp hike in September with a c. 30% chance of a 75bp move, while year-end rates are seen around 3.30% (2.25-2.50%) before easing mid-2023. The final July UoM saw a revision higher to headline sentiment although the 5yr inflation expectations nudged up slightly while Chicago PMI was worse than expected. Treasuries flattened with month end flows offsetting the impact of the data while crude prices surged in the NY afternoon to see WTI briefly reclaim USD 100/bbl before paring from highs. The Dollar sold off as equities rallied while Citigroup's month-end FX model pointed to net USD selling.

US

PCE, PERSONAL INCOME & SPENDING, & ECI: PCE came in hotter than expected, in fitting with the hot June CPI report. Core PCE M/M rose by 0.6% above expectations of 0.5% and accelerating from last month's 0.5% read. The Y/Y also accelerated to 4.8% from the prior and expected 4.7%. Headline PCE accelerated to 1.0% M/M from 0.6% while the Y/Y accelerated to 6.8% from 6.3%. Pantheon Macroeconomics suspects seasonal adjustments are part of the reason behind the hot figures with outsized gains in furniture, dental care and vehicle insurance and they expect better numbers in July. Personal income rose by 0.6%, above expectations of a 0.5% gain while consumption rose 1.1%, above expectations of 0.9%. Analysts at Pantheon Macroeconomic note the spending data is consistent with the GDP released on Thursday. Pantheon is pinning its hopes on a "continued improvement in vehicle supply meeting untapped demand, and on people responding favorably to the drop in gas prices". Given the Fed has switched to a data-dependent, meeting-by-meeting basis the next PCE & CPI reports and data on the labour market and economic activity will be key to gauging the Fed's reaction function for the remainder of its tightening cycle with rates now at neutral. Powell also noted the importance of the employment cost index, which is considered by many to be a superior measure of wage growth pressures, which rose by 1.3%, above the 1.2% expectation but it did cool from the prior 1.3% for Q2. Pantheon writes the surge in wage growth within the ECI is a disconcerting sign. The consultancy adds "Margin compression is the biggest driver of our forecast for lower inflation, but we were hoping for some help from slower wage growth too".

CHICAGO PMI: US Chicago PMI fell to 52.1 from 56.0, and way beneath the expected 55.0. Looking into the report, Pantheon Macroeconomics noted, “it is very volatile but it is part of our ISM manufacturing model, which suggests that the July index, due Monday, will dip to about 52, from 53.0 in June. This should be the low, given the strong rebound in

China's Caixin PMI, which tends to lead the U.S. regional and national surveys." Looking ahead, the consultancy adds "a return to previous peaks is not likely, though, and in the meantime we expect a tough summer for manufacturers, following declines in total output in both May and June. Nonetheless, PM notes, "the bright spot likely will be autos, as rising chip supply facilitates a sustained increase in output. Automakers can sell all they produce."

UOM FINAL: UoM sentiment was revised higher to 51.5 from 51.1, while conditions was also revised higher to 58.1 (prev. 57.1), but conditions remained unchanged. Additionally, on the inflation metrics, the longer term 5yr gauge was revised slightly higher to 2.9% (prev. 2.8%), but the 1yr was unchanged at 5.2%. Delving into the release, Oxford Economics note, "though concerns of rising gas prices receded in July, sentiment remains at historically low levels amid high inflation and growing recession fears. Rising interest rates, eroding purchasing power, and recent deterioration in labor market expectations are likely to restrain sentiment and weigh on consumers' attitudes during the coming months." Moreover, OxEco adds, "consumer sentiment index rose in the final report to 51.5, but sentiment has dropped precipitously since its peak in April 2021 at 88.3, as initial decreases attributed to COVID-19 related health worries have shifted to concerns associated to elevated inflation and a slowing economy."

FED: **Bostic (2024 voter)** said the country is not in recession, but the real question is whether current conditions are creating hardship. Bostic added the US is ways from a recession, but he shares concerns that recession fears could become self-fulfilling. Bostic stressed inflation needs to be addressed. On rates, and very much echoing what Fed Chair Powell said on Wednesday, the Atlanta Fed President said they are going to have to do more with interest rates, but details depend on the flow of data in coming months. Elsewhere, **Waller** said a soft landing is a plausible outcome for the US labour market.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 5 TICKS HIGHER AT 121-04+

Treasuries flattened while month end flows offset the hotter than expected PCE and wage costs, although Fed pricing was little changed. At settlement, 2s +2.0bps at 2.897%, 3s +0.5bps at 2.825%, 5s -0.5bps at 2.698%, 7s -1.3 bps at 2.697%, 10s -2.5bps at 2.656%, 20s -5.4bps at 3.198%, 30s -4.2bps at 2.997%.5yr BEI +5.5bps at 2.833%, 10yr BEI +4.2bps at 2.541%, 30yr BEI +2.0bps at 2.303%.

THE DAY: With it being the final trading day of the month, models had signalled bond buying which was eventually confirmed in the long end of the curve. There were plenty of data points to digest with EZ inflation metrics coming in hotter than expected after the hot German CPI on Thursday. US data saw hotter than expected PCE inflation on both the headline and core, following the hot June CPI release. The Employment Cost Index was also above expectations with employment wages rising 1.4% in Q2. Despite the "hawkish" data, money market pricing barely budged with markets still implying a 50bp move in September with a 26% chance of a 75bp hike while year-end rates are pricing in a fed funds rate of roughly 3.3%, which is also seen as the terminal rate with rate cuts to start from the middle of next year. Friday's data was not enough to shift market pricing with a lot of it already signalled by the hot June CPI report which cemented the Fed's 75bp hike on Wednesday. Meanwhile, Chicago PMI data disappointed expectations while the final July UoM was revised higher, but so were the 5yr inflation expectations. The bid into Treasuries was also likely supported with supply now in the rear view mirror, which overall saw a decent set of 2s, 5s and 7s auctions earlier in the week.

STIRS:

- EDU2 -1.0bps at 96.700, Z2 -3.5bps at 96.355, H3 -6.0bps at 96.530, M3 -4.0bps at 96.740, U3 -2.5bps at 96.950, Z3 -1.5bps at 97.095, H4 +0.5bps at 97.240, M4 +1.5bps at 97.365, U4 +2.0bps at 97.455, Z4 +2.5bps at 97.515, Z5 +2.0bps at 97.565.
- NY Fed RRP op. demand at USD 2.300tln (prev. 2.240tln) across 111 bidders (prev. 111)

CRUDE

WTI (U2) SETTLED USD 2.20 HIGHER AT 98.62/BBL; BRENT (U2) SETTLED 2.68 HIGHER AT 110.01/BBL

The crude complex was firmer to end the week, but settled well off best levels, as throughout the NY afternoon WTI and Brent trundled from highs. Regarding the day, WTI and Brent saw highs of USD 101.88/bbl and 110.67/bbl, respectively, which came after the US cash energy product open which saw oil extend on gains and grind to highs of the day. Moreover, WTI and Brent posted its second consecutive weekly gains with Friday's peaks also the WTD highs. On the earnings pipeline, Chevron (CVX), Exxon (XOM), and Phillips (PSX) all posted stellar reports amid the inflated oil prices, while CVX noted Permian production can go up to 1.5mln BPD, and expects new rigs in the Haynesville basin by year-end and it is ramping up drilling in Haynesville. Looking ahead, market participants turn their attention to OPEC+ meeting next week.

NORD STREAM 1: Nothing incrementally changed on the Nord Stream 1 situation on Friday, aside from Gazprom's manager stating Gazprom did not give permission to supply NS1 turbine to Germany instead of Russia, according to Interfax, and as of today, there are no documents for transportation of the engines. The Gazprom manager said Siemens has not addressed all the faults of engines and they expect Siemens experts at the Portovaya station. Finally, he added European partners do not meet contractual obligations on servicing NS1 but as soon as problems are addressed, gas supplies via NS1 will be restored.

OPEC: Russian and Saudi are firmly committed to the OPEC+ agreement goals. Elsewhere, according to Interfax sources, OPEC+ compliance with its oil output pledges stood at 320% in June. Reminder, OPEC+ sources on Thursday suggested the agreement for September will be left unchanged or slightly raised.

OSPs: Oman crude OSP is at USD 103.21bbl for September vs. USD 112.93bbl for August, according to DME data.

BAKER HUGHES: Rig Count: Oil rigs +6 at 605, Natgas +2 at 157, Total +9 at 767.

EQUITIES

CLOSES: SPX +1.44% at 4,131, NDX +1.81% at 12,947, DJIA +0.97% at 32,846, RUT +0.40% at 1,880.

SECTORS: Energy +4.54%, Consumer Discretionary +4.27%, Industrials +2.01%, Technology +1.55%, Financials +1.41%, Materials +1.33%, Utilities +0.84%, Communication Services +0.57%, Real Estate +0.3%, Health -0.34%, Consumer Staples -0.72%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.53% at 3,708; FTSE 100 +1.06% at 7,423; DAX +1.52% at 13,484; CAC 40 +1.72% at 6,448; IBEX 35 +0.88% at 8,156; FTSE MIB +2.16% at 22,405; SMI +0.15% at 11,145.

EARNINGS: **Apple (AAPL)** was firmer after it beat on the top and bottom line, while iPad and iPhone revenue segments also beat expectations. AAPL noted lower demand in some Chinese cities during lockdowns, and said the rebound from re-openings did not offset the lockdowns. Note, the CFO did not provide revenue guidance on the conference call. **Amazon (AMZN)** surged in the wake of a beat on revenue and AWS net sales, while Q3 net sales guidance was also strong. In commentary, CFO said Prime members had meaningfully increased spending since the start of the pandemic. **Chevron (CVX)** gained after it beat on profit and revenue, and increased the top end of its share buyback guidance to USD 15bln from 10bln. **Intel (INTC)** was lower following a poor report where it missed on the top and bottom line, alongside cutting FY revenue and EPS view. Intel said supply chain issues and delays in the rollout of new data center chips were among the factors weighing on results but CEO Gelsinger expects an improvement in H2. **Procter & Gamble (PG)** missed on EPS but beat on revenue. Analysts pointed downside towards the co. predicting organic sales growth of 3- 5% for the current fiscal year, the slowest since 2019 as consumers grow more cautious. **AbbVie (ABBV)** beat on EPS but missed on revenue, with their drug revenues mixed. Looking ahead, ABBV affirmed FY EPS view. **Exxon (XOM)** gained after it exceeded street expectations on profit as the co. benefited from higher prices for oil and natural gas as well as strong margins. **Roku (ROKU)** plummeted after results for Q2 disappointed and guidance for Q3 was weak. Exec said it was an economic environment defined by recessionary fears, inflationary pressures, rising interest rates, and ongoing supply chain disruptions. For H2, sees advertising spend to continue to be negatively impacted.

STOCK SPECIFICS: **Alibaba (BABA)** was added to the SEC list of firms that could face delisting. **Uber (UBER)** said reports of India's Ola and Uber merger talks are inaccurate. **Amazon (AMZN)** Drive, for storing important files in the cloud, is shutting down at the end of 2023, according to The Verge. Several stocks related to monkeypox **(SIGA, CMRX)** dived in late trade after the FDA announced it is working with the CDC to increase production of its FDA-cleared test to detect the virus. **Spotify (SPOT)** was lower after it was revealed TikTok filed a patent for "TikTok Music".

WEEKLY FX WRAP

Fed shifts guidance goalposts and Dollar to data dependency

USD - The Buck clawed back some losses with the aid of firmer than forecast US core PCE and ECI metrics, but remained on course for a soft end to the month post-FOMC and a much worse than expected advance Q2 GDP reading. To recap, the Fed lifted rates by another 75 bp as widely anticipated and put Funds back on a neutral level for the first time since 2019 in the process. However, the devil came with the detail, or lack of, as no signal about intentions for September were provided and future policy adjustments will now be made in accordance with unfolding data on a meeting-by-meeting basis. Moreover, the economic assessment was downgraded to acknowledge recent softer spending and production indicators compared to the prior view that overall activity seems to have picked up after edging down in Q1. Right on cue, and the first look at GDP over the April-June quarter was negative to tee up a technical recession regardless of Chair Powell and others including President Biden arguing that is not the case on the grounds of ongoing strength in the labour market. Hence, the next NFP release will assume even more importance for the FOMC and perceptions about the pace and scale of further tightening into restrictive territory. In terms of Greenback moves in response to and pre-Fed/GDP, largely volatile trade ensued yet again with the DXY peaking at 107.430 before the FOMC on Wednesday then retreating to a 105.530 low earlier today and rebounding to 106.670, at best.

JPY - By far the major beneficiary of the Dollar's deeper demise and irrespective of latest verbal intervention from various MoF and other Japanese officials. Indeed, the Yen hit heights of 132.50 overnight from midweek lows of 137.46 and Jpy crosses tumbled across the board as sharp reversals in US Treasury and other global bond yields came alongside a general repricing of rate expectations to leave less of a gap to JGBs and the BoJ by inference. Note also, two new BoJ members gave testimony and one in particular sounded less dovish than the predecessor.

EUR/CHF - The Euro should or could conceivably have derived more leverage from Eurozone data that was above consensus on balance, setting aside a bleak German Ifo survey, but Eur/Usd was thwarted around 1.0250 on numerous occasions having bounced from a low just shy of 1.0100 for technical and option-related reasons to a degree. Meanwhile, Eur/Chf dived from the high 0.9800 area to almost 0.9700 at one stage and this reveals the roots of the single currency's problems, namely the persistent threat of Russia shutting off gas pipelines completely and uncertainty regarding Italian politics. Note also, there was an inadvertent SNB boost for the Franc that got even closer to 0.9500 vs the Greenback than the aforementioned round number against the Euro, from 0.9668 at worst, when a publication pointed out that the Bank can alter policy if required outside its scheduled quarterly reviews.

NZD/AUD - More whipsaw price action down under, mainly on overall risk dynamics and in lock-step with their US peer, but the Aussie narrowly outpaced the Kiwi ahead of the RBA next week even though final retail sales were revised down to the slowest pace y-t-d and louder calls for a 75 bp hike fell back to half point consensus as a result. Aud/Usd fluctuated between 0.7031-0.6880, though never appeared comfortable on the 0.7000 handle, Aud/Nzd reached 1.1179 from 1.1066 and Nzd/Usd climbed to 0.6329 from 0.6193 with some impetus from improvements in ANZ's business survey for the outlook and own activity. For the record, RBNZ Governor Orr said that in addition to its remit review the Bank will review recent performance in conducting monetary policy, including inflation and employment outcomes relative to targets, but this had little impact.

GBP/CAD - A relatively low-key agenda on the UK data front in the run up to the BoE and the Pound retained a passive interest in political proceedings as the final two contenders for Tory leader and PM faced off on TV and started the round of hustings. So, Sterling was more exposed to external influences and a few technical impulses as Cable recovered from 1.1961 to breach a Fib on the way to 1.2245 before fading and Eur/Gbp descended from 0.8525 to 0.8346 through the 200 DMA, but not quite as far as 0.8333 that represents 1.2000 in the reciprocal cross, or a Fib at 0.8326. Similarly, the Loonie only had monthly Canadian GDP and relatively stale budget balances to digest on the macro side, albeit the former stagnated rather than declining 0.2%, while oil was extremely choppy as WTI crude veered from Usd 93.01 to Usd 101.88 at the other extreme and is still on the up. Thus, Usd/Cad is probing 1.2800 compared to an apex a few bips beneath 1.2950.

SCANDI/EM/PM - The Nok is forging fresh weekly highs vs the Eur on the pronounced bounce in Brent, like the Loonie as the benchmark climbs to Usd 110.67/brl from Usd 106.90, but the Mxn is lagging amidst USMCA trade conflict and it goes without saying that the Try will struggle to cope with the higher price of imported oil having got a fillip from a narrower Turkish trade deficit and cash from Russia for a new nuclear plant. Separately, the CBRT vowed to stick with its monetary policy and model, while blaming FX purchases and stockpiling for sabotaging the economy. Elsewhere, nothing concrete or constructive came from the eagerly awaited Xi-Biden call as the Chinese President and his US counterpart talked in depth about mutual concerns, while pursuing national interests, but the Cnh and Cny were underpinned to a degree by the PBoC issuing a notice supporting the recovery of cultural and tourism sectors along with China's Politburo pledging to keep economic operations in a reasonable range, stabilise prices and employment in H2 on top of stabilising the troubled property sector. In Brazil, the Brl gleaned more traction from a decent 2022 GDP upgrade and in SA the Zar was glad to see Gold make a clean break of the 21 DMA on the way up beyond Usd 1750/oz and the Government finalise plans to take on a portion of Eskom's Usd 24 bn debt.

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